

spa business

INTERVIEW

Sharilyn Abbajay

Marriott's new vice-president for global spa & retail

Top of the world

Starwood's Iridium Spa debuts at St Regis Lhasa, Tibet

Robert De Niro

has his shibui spa got star quality?



SPA SPOTLIGHT: CANADA, PORTUGAL, TIBET, TURKEY & THE UK

REALTY CHECK

Residential spa communities have been a hot topic in the global wellness industry ever since operator Canyon Ranch unveiled its seminal 'Living' concept in 2003. And in the wake of this news, a flurry of other developments were announced: several more high-profile operators revealed plans for wellness communities in the US, while substantial spa facilities swiftly became must-have amenities for luxury real estate developers the world over.

However, the spa/real estate love affair – in the US, at least – hit the rocks when the world was plunged into financial crisis. By the time Arizona-based destination spa operator Miraval and New York developer River Terrace Apartments announced the end of their partnership – for the Miraval Living condominium development – last October it had long been over. Although, it should be noted that New York-based operator American Leisure has since taken over the Miraval development, which has been renamed 515East72.

Even before the inaugural Canyon Ranch project opened in Miami Beach in 2008, the company's plans for two other Living projects – in Bethesda, near Washington DC, and Chicago – had been cancelled, while last year the Miami-based Pritikin Longevity Center and Spa also shelved plans for a Pritikin Living development in Houston,

As the global economy recovers from financial crisis, we ask what the future holds for the spa living sector in the US – where the trend began and where it's suffered some of the greatest losses – and touch upon what's happening elsewhere in the world

Texas. Those projects that have opened in the last three years – including Clinique La Prairie Lifestyle Residences at Ten Museum Park, Miami, and Cooper Life at Craig Ranch in McKinney, Texas – have done so in a very challenging marketplace.

The fate of these projects might not be indicative of all residential models with spa elements in the US – urban apartment blocks with scaled-down fitness or spa facilities and golf communities with built-in spas appear to have done better – or indeed developments in other parts of the world. However, it's to be noted that more substantial spa real estate projects have certainly suffered a dramatic fall from grace, with the US market, as a pioneer in this field, inevitably one of the hardest hit.



Canyon Ranch is already moving ahead with an international rollout of its Living brand, despite two US sites being cancelled in 2008

However, along with the stirrings of economic recovery, there are some early signs that the spa real estate trend is by no means dead in the water – in the US or elsewhere in the world. Canyon Ranch is already moving ahead with an international rollout of its Living brand, a residential development from UK health-resort operator Champneys is set for a 2012 opening in Marbella, Spain (see p34) and other projects across the globe are successfully mixing real estate with significant spa offerings in different guises: Four Seasons and Six Senses are just two operators that can testify to this (see p33).

But how much potential does this sector really have, given its difficult last few years? Will the obstacles it's encountered disappear as the housing and financial markets stabilise, or is it a trend ahead of its time, a fact the economic crisis has simply thrown into relief? Which models have proved the most resilient and offer the most opportunity for growth? And while the US has been the leader in the sector to date, what's going on in other markets elsewhere?

Living the dream

Given the difficulties experienced by the Canyon Ranch Living and Miraval Living projects in the US, Susie Ellis, president of media and marketing company SpaFinder, is unsure whether there's sufficient



demand for dedicated residential communities modelled on destination spas – that is, with extensive daily spa, fitness and medical programming in addition to a full range of amenities. “I think that’s a challenging model,” she says. “It is the ultimate for people who are core spa-goers, but unfortunately I just don’t think it pencils out in the long run.”

Yet while Gary Milner, vice-president of development for Canyon Ranch, acknowledges that the last few years have not been easy, he is surprisingly sanguine about the strength of the Canyon Ranch Living model. “We launched in Miami in November 2008, two months after the failure of Lehmann Brothers, the project’s financial partners. What happened in ’08 was devastating on a macro level to virtually everyone in the US real estate market, so we couldn’t have launched at a harder time. But what’s happened since is that buyer confidence has improved.”

As a result, Canyon Ranch Living Miami – which already has 60 per cent of close to 600 units sold, and more under contract – is seeing “the best sales traffic and activity we’ve seen in a long time,” says Milner. “Right now we’re seeing about 100 prospects a week, which is maybe a three- or four-fold increase from early ’09.”



Canyon Ranch Living Miami is attracting about 100 sales leads a week, which is around a three-fold increase from early 2009

As for the cancellation of the Bethesda and Chicago developments, Milner simply blames the collapse of the real estate market, saying: “We were the victims of the world’s worst timing on those projects, definitely... I really believe if they had come to the market six months or nine months earlier, they would have sold out.”

So why was Canyon Ranch Living Miami able to weather the economic downturn when Miraval Living was not? Miraval declined to speak to *Spa Business* about this issue, but according to a report in the *New York Times*, Miraval executives said the developer had repeatedly missed payments and not complied with the terms of its contract, while James W Sheehan, the project manager, said troubling delays with the opening of the spa led the developer to end the partnership and look for a new operator (which it found in American Leisure). At that time, it was reported that fewer than half the 365 units had been sold since the building went on the market in 2007.

Part of the trouble with Miraval, believes Ellis, was that in addition to the incredibly difficult economic climate it was launched in, the property was beleaguered with city zoning restrictions that

INVESTIGATION

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American Leisure's The Edge is a successful residents-only development with extensive wellness amenities

meant it could not include memberships or day-spa business in its model, either of which would have helped increase revenues and cover overheads. "It just didn't really have a chance," she says.

Canyon Ranch Miami, by contrast, does not rely solely on residents: crucially, the model includes a condo-hotel, whose owners are able to put their properties into a rental programme when not in residence. "The hotel is essential from the revenue standpoint, because the hotel guest is a more intensive user of everything – the restaurant, the spa services, the doctor – than a resident would be," says Milner. "[Another reason] the hotel is interesting is that it's the number one source of buyers. They come here, they enjoy everything we have to offer and then they enquire. A very high percentage of people who buy have visited the hotel previously."

The property is also set up to sell memberships if needed, he says, although "after this winter season, between the increased closing and occupancy of units and the increased occupancy of the hotel, I really don't think we're going to have the capacity."

Wellness lifestyle

While Ellis concedes that including a rental programme and/or a local business element makes the model more viable, she remains unconvinced of the immediate potential for destination spa-style real estate developments. "Canyon Ranch Living Miami has gotten through and I'm delighted it's continuing and I wish it every success. But if Canyon Ranch can't do it easily, it's going to be extremely difficult for others to make it work."

What she does see as a trend, both in the US and further afield, is the consumer's appetite for 'wellness lifestyle': residential developments where people can access the kind of services they need to lead a healthier, more fulfilled life – spas, fitness and/or sports facilities, relaxation spaces, restaurants serving healthy food – but without the heavy-duty programming of a destination spa (or its associated overheads). And it's a trend Ellis believes is only going to grow as the health-conscious Baby Boomer generation reaches retirement age, adding that affluent young families are another key market.

Tom Johnston, chief operating officer of American Leisure, which specialises in delivering wellness lifestyle solutions to residential developments, agrees the demand is there: while pools, health clubs and even small spas have been features of luxury apartment buildings for some years now, a large number of condo developers are now investing much more heavily in wellness and leisure amenities, he says. "People want luxury, but they don't have the luxury of time, so they're looking for a lifestyle where all the amenities they need are at home – the spa, fitness centre, community spaces – all under one roof."

Although some US developers with this kind of offering are struggling to move units in the wake of the recession, particularly in the cities, this is not indicative of the US market as a whole, says Johnston, who points out that American Leisure grew its business in 2010. Nor does he believe that developments must include condo-hotel units, sell memberships or open up to day guests to justify a significant wellness investment – the key, he says, is to make sure that the amenities are not overbuilt: "I wouldn't say they're essential, but



when you lack the ability to include those elements, you've got to take a hard look at your model."

As an example of a successful residents-only development with ample wellness amenities (40,000sq ft/3,700sq m), Johnston points to American Leisure's The Edge in Williamsburg, Brooklyn. At the time of writing in December, the 565-unit development had over 100 units closed and 100 more in contract, and since occupancy began in August had averaged a deal a day. "We're pretty confident it's not overbuilt, the units are selling and the developer is extremely happy," says Johnston.

And it's not only in the US that real estate developers are seeing the value of investing in wellness lifestyle. Johnston says American Leisure is talking to a number of developers abroad, particularly in the Middle East. Examples of similar projects already popping up elsewhere in the world include the Soul development currently under construction on Australia's Gold Coast which is selling well (despite being down the road from existing residential property the Q1 Resort and Spa) and Antel Spa Residences in Makati City, in the Philippines.

Hotel and away

Also tapping into this appetite for 'wellness lifestyle' with some success are several large hotel and spa operators, including Hyatt, Fairmont, Ritz-Carlton and Four Seasons, which are increasingly adding private residences to many of their urban and resort settings. Four Seasons has 21 properties across the world with full-ownership



Six Senses Private Residences division has performed remarkably well. Its Saigon River site just soft-launched locally

private residences – and more offering fractional ownership – and says 75 per cent of all future properties will have a residential component.

Smaller spa resorts in various global markets are also seeing the potential of adding some residential real estate to their core offer. In the US, destination spas Miraval in Arizona, Canyon Ranch in Arizona and Massachusetts, and Red Mountain in Utah have

had success selling on-site private residences, while in Asia Banyan Tree and Six Senses (both resort companies with very strong spa and wellness offerings) have burgeoning private residences arms.

Despite launching three years ago, just before the economy imploded, Six Senses Private Residences division has performed remarkably well, with three developments currently being marketed – two in Thailand (Soneva Kiri and Six Senses Yao Noi) and one in Vietnam (Six Senses Con Dao, opened in December) – and a fourth, Six Senses Saigon River, which has been soft-launched locally. According to Adam Taugwalder, who heads up the division, all the properties are meeting sales expectations – looking at the two Thai resorts, 15 of Soneva Kiri's 20 units and five of Yao Noi's 15 units are already sold, despite 2009 being one of the Thai market's toughest years ever thanks to the combination of political troubles and the global downturn. In Vietnam, meanwhile, eight of Con Dao's 15 units had been sold before the resort even opened.

The key to this success, believes Taugwalder, has been not betraying the company's roots as a resort operator and keeping numbers ►



small. “We usually take the number of resort units and then add a maximum of 50 per cent in residential units,” he says. “We get a very healthy premium with our brand and it would be impossible to achieve 50 per cent sales in this climate, with that premium, if we were selling 200 units rather than 15 or 20.”

In terms of what the residences arm brings to the resort business, the capital generated by real estate sales is one advantage, says Taugwalder: “Financing is harder to come by and the costs of building a five- or six-star resort are going up and up, so it’s definitely a factor.” Beyond that, the residences help create a community feel, he says, while the rental programme means there’s a greater variety of rooms to offer hotel guests. The rental programme also helps attract buyers by promising a return on investment, says Taugwalder, although he stresses the company only sells “to lifestyle buyers who want to be part of the community.”

Another spa real estate model that appears to have weathered the downturn relatively well – both in the US and elsewhere in the world – is the golf-cum-wellness community, with examples including Cliffs Communities and Cooper Life at Craig Ranch in McKinney, Texas, in the US and Mission Hills Shenzhen in China.

Mixing it up

It perhaps comes as no surprise to learn that, when it comes to weathering an economic downturn, some of the hardest models have been the hybrids. But does this mean that dedicated spa communities in the Canyon Ranch vein – where real estate combined with extensive wellness programming is the primary focus – are indeed ahead of their time?

Ray Payne, managing director of Champneys, thinks not: Champneys Marbella, a 72-villa residential development centred around a wellness centre comparable with the company’s destination-spa offerings in the UK, is already two-thirds sold, despite the fact that

Four Seasons has 21 properties offering full-ownership private residences, and more with fractional ownership

other luxury housing developments in the region “have either stopped completely or are lying empty.” Originally scheduled for completion this year, the property is now due for a 2012 launch, but only because of construction delays linked to unprecedented rainfall in Spain.

Although he admits they are selling at the “worst possible time in Europe” – especially with the weakening of the pound against the euro – Payne believes that in a strange way the downturn may actually have helped to attract buyers. “We’ve marketed very much to existing Champneys’ users who know the brand [and who see this as] a lifestyle opportunity where they can also get a return on their investment. Opportunities to invest money and get a return are few and far between at the moment and although this is a new opportunity, and there is a risk attached to it, our track record of UK occupancies [gives our investors confidence].”

Importantly, the development includes a rental programme for owners, and Marbella is only a 45-minute drive from Malaga Airport, a hub for budget airlines flying from the UK. The spa will also be open to day guests and memberships may be considered, depending on occupancy.

Looking ahead, Payne believes the model could be a very effective way to expand the Champneys brand internationally. “Really it’s about finance and development,” he says. “Creating a facility the size of what we have in the UK requires a huge amount of investment and the climate at the moment is not the best one in which to acquire that, [whereas this model] appears to be a very attractive business proposition.”

On the other side of the Atlantic, Milner shares this confidence for Canyon Ranch, revealing that the company is already in talks with a number of international developers regarding taking the Living concept overseas. “The only thing that held us back is the macro-economic climate,” he says. “We’re expecting to have a record season.” ●